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#### Zapatero's Proposed Sustainable Economy Law Elicits Strong Criticism

1.(U) The GOS submitted the much anticipated draft Sustainable Economy Law (LES) to Congress amidst strong criticism from opposition leader Mariano Rajoy and minority parties on December 2. The proposed legislation is a key component of President Zapatero's strategy to address the lagging economy and increasing unemployment, as well as to reorient the country's economic model. It aims to spur the development over the long term of an economy that is sustainable in terms of growth, the environment, social programs, and public finances. The package, with an estimated price tag of 20 billion euros over the next 10 years, consists of what critics have termed a "grab bag" of initiatives, both new and previously announced -- among them several required by the EU. Included are measures to promote competitiveness, energy efficiency, green technology, streamlined administrative procedures, and fiscal responsibility. Significant features of the legislation are proposals to: cap the life of nuclear power plants at 40 years, address the issue of double taxation, improve IPR protection (septel), release analog bandwidths for mobile broadband service development, and require reporting of CEO compensation packages by publicly-held companies and savings banks.

2.(U) While response to the LES has been largely negative, some economists have called it a step in the right direction. Among the environmental measures are incentives to encourage "green building," stimulate the development of electric car technology, promote energy efficiency, and increase the use of public transit. There are also requirements to expand freight rail capacity and inform consumers about the true

cost and source of the electricity they use. Measures to improve government efficiency include shortening the time required to open a new business, restructuring regulators (including telecoms, energy, and competition), shortening payment terms for public contracts, and establishing a group to analyze government efficiency and reduce costs.

3.(U) Critics in the Congress called the LES a "mere declaration of intentions." Opposition Popular Party leader Mariano Rajoy characterized it as a "joke" lacking in substance. Instead of the LES, he says the GOS needs to make real structural reforms in public spending, the financial sector (pointing out that the restructuring of savings banks has taken much longer than expected), the judicial system, the energy sector, the education system, and the labor market. Comment: The LES is unusual in terms of its breadth of focus. However, it includes provisions and deadlines for passing additional legislation detailing reforms in the labor market and pension programs as well as the financial, energy, and transportation sectors. While Spain is required by the EU to adopt many of provisions in the LES, given the present opposition in the Congress, it appears unlikely that it will be approved as quickly as Zapatero would like. End Comment. (El Pais, 12/2 El Confidencial, 12/2, Expansion, 12/2, Presidency website)

#### Lower Dismissal Costs off Table in Renewed Social Dialogue Talks

4.(U) President Zapatero announced a restart of the stalled social dialogue process but shelved discussion of the labor reforms that international observers and the local business community say Spain needs most. Zapatero said that lowering dismissal costs, creating a single hiring contract, and eliminating judicial authority for resolving labor disputes

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were all off the table. Instead, he proposed to improve flexibility in the collective bargaining process and increase the retirement age to protect the pension system. Rather than firing employees during difficult times, Zapatero said that the reforms would make it easier for employers to shorten hours and lower salaries. The Confederation of Employers Organizations (CEOE) responded negatively, saying that the government needs to lower payroll and business taxes to make Spain's businesses more competitive with their European counterparts. (El Pais, 12/3)

#### Number of Registered Unemployed Up in November

5.(U) The number of registered unemployed rose by 60,000 in November. President Zapatero noted that after a seasonality adjustment, this was equivalent to a slight decrease in the number of unemployed -- i.e., that it was less than would take place in a normal November. Other GOS officials said the number (one-third of the increase in November 2008) was a sign that Spain could hope for improvement in 2010. Comment: While the series are not directly comparable, this figure looks consistent with an increase in the unemployment rate of a couple of tenths of a percentage point. End Comment. (El Pais 12/2, Embassy)

#### Annual Inflation Rate Now Positive After November Price Rise

6.(U) The National Statistics Institute's preliminary November twelve-month inflation estimate is 0.4%, the first positive annual rate since February. It suggests that prices rose by about 0.6% during the month, after an 0.7% increase in October. Comment: The return of the annual inflation rate to positive territory should reduce concern about the possibility of deflation. End Comment. (INE Statement 11/27; Embassy Calculation)

#### BBVA Increases Stake in Chinese Bank

7.(U) BBVA has invested 1 billion Euros in Citic Bank,

acquiring an additional 5% to increase its total stake to 15% of the Chinese bank. The company noted that its strong presence in Latin America offered a competitive advantage given the increasingly fluid commercial relations between Asia and Latin America. BBVA also has a 30% stake in Hong Kong-based Citic International Financial Holdings. (El Pais, 12/4; BBVA Statement, 12/3)  
CHACON